



Committee On Finance

Max Baucus, Chairman

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STATEMENT BY SENATOR MAX BAUCUS
TESTIMONY BY SECRETARY O'NEILL ON THE PRESIDENT'S BUDGET
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I am delighted to welcome Secretary O'Neill for his third appearance before us as the Secretary of the Treasury. Mr. Secretary, your testimony comes at a critical time. We face great challenges. As the President said in his State of the Union address, we must win a war, protect our homeland, and revive our economy.

How can we meet these challenges? Where do we find the resources? In large part, it's about our national character. We must find the resources in our hearts, our homes, and our communities. It's attitude. Working together. Lending each other a hand. But it's also, in part, a question of economic resources. Of dollars and cents.

That's what brings us here today. In the same way that a husband and wife need to sit down occasionally and discuss the family budget, we need to discuss our national budget. In the same way that a family should, to renew our national conversation about the trillions of dollars that are spent by the federal government. Because that's how we set our priorities.

The President's budget establishes a solid framework. In a time of war, national security comes first. We all agree with that. Even it means that we must, reluctantly, postpone the day when we finally pay off the national debt.

We also agree that we need to take steps to revive the economy. And we agree that we must meet other important national objectives. Forty-three million Americans lack health insurance. Our seniors pay the highest prescription drug prices in the world. We've got to address these problems. We all agree on these broad outlines. But we must work together to resolve differences about important details.

Let me describe several areas where, to my mind, we still have differences to resolve.

First, the long-term budget outlook.

The contrast is stark. A year ago, the projected ten-year surplus was \$5.6 trillion. Today, under the Administration's estimates, it's one trillion. We need to get beyond the debate about the cause of this dramatic change. Instead, we need to decide what to do about it. How do we get back on a path to a balanced budget?

Let me explain why this is important. In just six years, the first wave of the massive baby boom generation will be eligible for Social Security.

After that, wave after wave of retirees will follow. By 2030, the number of seniors in the United States will be almost double the number that existed last year.

And that's not the end of it. Once the baby boomers retire, there will be relatively fewer workers to support them. In the year 2000, there were 3.4 workers for every beneficiary. In 2030, there will be just 2.1 workers per beneficiary.

What does this mean? Higher costs for Social Security. Higher costs for Medicare. Not a little bit higher. Hundreds of billions of dollars higher. If we're going to cope with these costs, without cutting the benefits that seniors will depend on, we have to prepare.

How? One of the best ways is invest the Social Security and Medicare surplus, in order to pay down the debt. That will reduce our interest costs in future years. That, in turn, will make it easier to pay for our increased Social Security and Medicare costs.

But this budget, unfortunately, falls short. Ten years from now, in fiscal Year 2012, the budget is still using \$73 billion of Social Security surpluses and \$75 billion of Medicare surpluses.

Over the next ten years, the budget proposes to use 1.4 trillion of Social Security surpluses and \$600 billion of Medicare surpluses for other purposes, rather than retiring debt held by the public.

Given this situation, I think we need to find some more balance in as we work on determining our budget priorities over the long term.

A second area where, to my mind, we need further work is health care. The President has called for broader prescription drug coverage. But the budget doesn't provide the necessary resources necessary to provide a solid universal prescription drug benefit.

I grant you. The budget is tight, especially if, as I just said, we need to pay down the debt. But we all have identified prescription drug coverage as one of our most important national priorities. Last year, there was a bipartisan agreement that we needed to set aside \$300 billion for this very purpose. Even so, during our negotiations, we found that it was hard to come up with a program without charging seniors high premiums, high deductibles, or both.

Unfortunately, the budget moves in the wrong direction. It only proposes \$190 billion for a new prescription drug program. This may not be enough to give seniors the prescription drug coverage that they deserve.

The third area where we need further work is highway funding. The President's Budget proposes to spend 9 billion less for the highway program in Fiscal Year 2003 than in Fiscal Year 2002.

This will be devastating to every state, including my state of Montana. And it comes at precisely the wrong time. The cuts will reduce the number of highway construction jobs, just when we need to be increasing them.

Obviously, the Treasury Department does not have primary responsibility for the highway program. However, some of the problems that we're having directly result from errors in estimating highway user tax revenues. And that is the responsibility of the Treasury Department. In any event, I want to send a strong signal. There's a \$20 billion surplus in the highway trust fund. We should be using it to build highways.

There is one other issue that's not primarily part of the budget debate, but that is on everyone's mind. The Enron scandal and its implications. This committee is responsible for our pension laws and our tax laws. Enron has implications for both. The mix of stock in 401(k) plans. The "blackout" period. Hundreds of entities that are off-shore and off-the-books.

This committee will take a hard look at these issues. We're not looking for headlines. We're not looking for some scandalous revelation. Instead, we will undertake a solid, steady, and vigorous investigation, to understand the full extent of the problems and the possible solutions. I know, Mr. Secretary, that you have been paying close attention to these matters, and we will be interested in learning your views, both today and in the future.

Finally, on a personal note, let me congratulate you on your first year in office. When you came before us a year ago, as the President's nominee, you said you would speak your mind. You said you would look for facts rather than speculation. You said that you would try to solve problems rather than score political points. You've been true to your word. In fact, I can't think of anyone in the administration who has tried harder to find solutions that work for the American people. I was especially struck by your efforts during our discussions of the economic stimulus bill late last year. You were always willing to listen carefully and think creatively. You've done a very good job. We thank you, and welcome you back to the committee.